

## Message Text

LIMITED OFFICIAL USE

PAGE 01 BONN 09893 01 OF 02 191714Z

44

ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 L-03 H-02 PA-01 PRS-01 /087 W

----- 101264

R 191701Z JUN 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 0852

INFO USMISSION OECD PARIS

USMISSION EC BRUSSELS

AMEMBASSY LONDON

AMEMBASSY ROME

AMEMBASSY PARIS

LIMITED OFFICIAL USE SECTION 01 OF 02 BONN 09893

DEPARTMENT PLEASE PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: THE ECONOMIC MOOD: THROUGH A GLASS DARKLY

1. SUMMARY. MORE PESSIMISTIC VIEWS REGARDING THE STATE OF THE ECONOMY ARE BEGINNING TO PREVAIL AND THE PREVIOUSLY HOPEFUL AND EVEN SOMETIMES EBULLIENT OPINIONS REGARDING AN EARLY UPTURN ARE NOWHERE TO BE HEARD. RATHER, CAUTION RANGING ALL THE WAY TO DOWNRIGHT SKEPTICISM CHARACTERIZES THE COMMENT ON THE SITUATION. END SUMMARY.

2. THE JUST-ISSUED MONTHLY REPORT OF THE NORMALLY OPTIMISTICALLY-BIASED BUNDESBANK STATES THAT THE ECONOMY IS STILL IN A RECESSIONARY PHASE. THE SIGNS OF AN EXPANSION NOTED IN SOME AREAS (E.G. NEW ORDERS FOR LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 BONN 09893 01 OF 02 191714Z

CAPITAL EQUIPMENT) HAVE NOT BEEN SUFFICIENTLY STRONG

TO IMPROVE THE OVERALL PICTURE. EVEN THOUGH PRIVATE INCOMES HAVE GROWN CONSIDERABLY IN RESPONSE TO THE CHILDREN'S ALLOWANCES AND TAX REFORM MEASURES, AS WELL AS TO INCREASED WAGES, THESE GAINS HAVE BEEN LARGELY SAVED BY THE CONSUMER AS JOB UNCERTAINTY PERSISTS, RATHER THAN PROVIDING THE BOOST TO PRIVATE CONSUMPTION HAD THEY BEEN SPENT. THE BANK CONTINUES BY SAYING THAT INVESTMENT ACTIVITY REMAINS WEAK. THIS IS ATTRIBUTED TO THE FACT THAT DAMPENED EXPORT DEMAND HAS REDUCED BUSINESS' EXPECTATIONS FOR FUTURE SALES GROWTH. GNP IN THE FIRST QUARTER IS DOWN 3 PERCENT FROM LAST YEAR AND SEASONALLY ADJUSTED UNEMPLOYMENT IS AT 5 PERCENT, SAID THE BANK. FOLLOWING THE RECITATION OF BAD NEWS, THE BANK PROCEEDS TO DEFEND ITS AND THE GOVERNMENT'S POLICIES. IT MAINTAINS THAT THE RESUMPTION OF INVESTMENT ACTIVITY CANNOT DEPEND ALONE ON ECONOMIC POLICY MEASURES SUCH AS THE INVESTMENT BONUS AND THE LOWERING OF INTEREST RATES, BUT RATHER MUST ALSO COINCIDE WITH AN OPTIMISTIC APPRAISAL OF IMPROVED FUTURE BUSINESS CONDITIONS (AND THIS ELEMENT IS LACKING). A BASIS FOR IMPROVEMENT, THE BANK SAYS, COULD BE THROUGH A RESUMPTION OF CONSUMER SPENDING AND THE NORMALIZATION OF THE SAVINGS RATIO. ALSO, THE BANK URGES THAT PUBLIC SECTOR EXPENDITURES NOT BE CUT BACK IN THE BUDGETARY CRUNCH, BUT RATHER SHOULD BE EXPANDED IN LINE WITH BUDGET PLANS, ESPECIALLY THOSE OF AN INVESTMENT TYPE, TO STIMULATE THE ECONOMY. THE BANK SEEMS TO BE SAYING, THEY HAVE DONE THEIR EXPANSIONARY DUTY, NOW IT IS FOR OTHERS TO ACT. THE BANK DOES NOT VENTURE AN OPINION ON THE UPSWING TIMING EXCEPT TO IMPLY THAT IT IS STILL UNSURE. FURTHER, IT SEES A WEAKNESS IN THE FACT THAT MOST INDUSTRIAL COUNTRIES ARE INCORPORATING IN THEIR EXPECTATIONS FOR A SECOND-HALF 1975 ECONOMIC IMPROVEMENT A PICK UP IN FOREIGN DEMAND WHICH IS SUPPOSED TO STEM FROM UPTURNS IN THEIR TRADING PARTNERS' ECONOMIES -- A VERY TENUOUS ASSUMPTION IN MANY CASES. IMPLIED IS THAT THIS MUTUAL REINFORCEMENT OF WISHFUL THINKING COULD TURN OUT TO HAVE A HOUSE-OF-CARDS QUALITY.

3. SPEAKING IN NEW YORK ON JUNE 18, ECONOMICS MINISTER  
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 BONN 09893 01 OF 02 191714Z

FRIDERICH'S IS REPORTED AS HAVING SAID THAT THE NEAR FUTURE DOES NOT PRESENT A PARTICULARLY HAPPY ECONOMIC PICTURE. HE IS QUOTED AS SAYING THAT GERMANY WILL BE MANY YEARS IN OVERCOMING THE STRUCTURAL PROBLEMS CONFRONTING THE ECONOMY EVEN AFTER THE IMMEDIATELY PRESSING DIFFICULTIES HAVE BEEN SOLVED. HE EXPECTS "AT BEST" ZERO GROWTH FOR 1975. LAGGING EXPORTS WERE LARGELY BLAMED FOR THE POOR OUTLOOK.

4. JOSEF STINGL, THE HEAD OF THE FEDERAL EMPLOYMENT OFFICE ANNOUNCED THAT HE FORECASTS THAT AVERAGE UNEMPLOYMENT FOR 1975 WILL BE ONE MILLION OR 4.4 PERCENT OF THE LABOR FORCE, AND THAT NEXT YEAR'S SEASONAL PEAK IN JANUARY/FEBRUARY WILL EXCEED THIS YEAR'S 1.2 MILLION RECORD LEVEL.

5. HANS MARTIN SCHLEYER, PRESIDENT OF THE GERMAN

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 BONN 09893 02 OF 02 191713Z

44

ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 L-03 H-02 PA-01 PRS-01 /087 W

----- 101255

R 191701Z JUN 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 0853

INFO USMISSION OECD PARIS

USMISSION EC BRUSSELS

AMEMBASSY LONDON

AMEMBASSY ROME

AMEMBASSY PARIS

LIMITED OFFICIAL USE SECTION 02 OF 02 BONN 09893

FEDERATION OF EMPLOYERS' ASSOCIATIONS, REFLECTED THE GENERALLY DISMAL VIEW OF BUSINESSMEN WHEN HE STATED THAT 1975 WILL HAVE A CONSIDERABLY WORSE GROWTH RATE THAN IN RECESSION YEAR 1967. IN THAT YEAR REAL GNP DECLINED BY 0.2 PERCENT. ON THE OTHER HAND HE FORECAST NO

FURTHER DEEPENING OF THE PRESENT RECESSION. THE EARLIEST HE COULD SEE REAL GROWTH RESUMING WAS IN THE LAST MONTHS OF THIS YEAR.

6. THE KIEL INSTITUTE IN A RECENTLY RELEASED REPORT STATES THAT PROSPECTS FOR AN EARLY UPSWING IN THE FRG HAVE DETERIORATED AGAIN DUE TO THE SUSTAINED RECESSION IN THE WESTERN INDUSTRIALIZED COUNTRIES. DESPITE OFFICIAL EFFORTS AT STIMULATION BOTH INVESTORS AND CONSUMERS HAVE NOT GIVEN UP THEIR RESERVE. NEVERTHELESS THE INSTITUTE ADVISES AGAINST ADDITIONAL STIMULATION LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 BONN 09893 02 OF 02 191713Z

AT THIS POINT.

7. SEIZING UPON THE POLITICAL OPPORTUNITY THAT THE FOREGOING ECONOMIC NEWS PRESENTS TO POLEMICIZE, OPPOSITION BUNDESTAG MEMBERS ARE DECLARING THAT INVESTORS' RELUCTANCE AND THE SAVINGS RATE REPRESENT A PERMANENT VOTE OF NO CONFIDENCE FOR THE GOVERNMENT. FURTHER, CHARGED IS THAT THE GOVERNMENT HAD FED THE VOTERS UP TO THE MAY 4 ELECTION IN NORTH RHINE WESTPHALIA FALSE STATEMENTS REGARDING THE UPSWING AND HAD MANIPULATED UNEMPLOYMENT FIGURES. THE GOVERNMENT, ONE OPPOSITION CRITIC ALLEGED, IS DEMONSTRATING UNCERTAINTY AND LACK OF LEADERSHIP.

8. COMMENT: THE GOVERNMENT STILL HOPES THAT INVESTMENT WILL RESPOND TO THE BONUS STIMULUS. HOWEVER, THE RESULTS OF THIS EFFORT WILL NOT BE CLEARLY KNOWN UNTIL AUGUST WHEN THE NEW ORDER DATA FOR JUNE WILL BECOME AVAILABLE. THIS UNDOUBTEDLY PLAYED A ROLE IN THE ANNOUNCEMENT OF JUNE 19 THAT THE FEDERAL GOVERNMENT AND STATES WILL DISCUSS IN AUGUST POSSIBLE NEW PROGRAMS TO REVIVE THE ECONOMY.  
CASH

LIMITED OFFICIAL USE

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** ECONOMIC CONDITIONS, FINANCIAL CRISIS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 19 JUN 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** ellisoob  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1975BONN09893  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D750214-0233  
**From:** BONN  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1975/newtext/t19750632/aaaabcst.tel  
**Line Count:** 209  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION EUR  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 4  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** ellisoob  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 16 APR 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <16 APR 2003 by ElyME>; APPROVED <16 OCT 2003 by ellisoob>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
06 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** THE ECONOMIC MOOD: THROUGH A GLASS DARKLY  
**TAGS:** EFIN, GE  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006